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INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY
RUEHBUL/AMEMBASSY KABUL PRIORITY 0198
RUEHGB/AMEMBASSY BAGHDAD PRIORITY 0523
RUEHLB/AMEMBASSY BEIRUT PRIORITY 1007
RUEHJM/AMCONSUL JERUSALEM PRIORITY 1262

C O N F I D E N T I A L SECTION 01 OF 05 KUWAIT 000087

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STATE PASS TO TREASURY ASAEED

E.O. 12958: DECL: 01/08/2016

TAGS: [PREL](#) [EAID](#) [EFIN](#) [ECON](#) [KPAL](#) [AF](#) [LE](#) [IZ](#) [IS](#) [KU](#)

SUBJECT: A/S WAYNE AND TREASURY DAS SAEED ENGAGE KUWAITIS
ON STRATEGIC INVESTMENT INITIATIVE

Classified By: Ambassador Richard LeBaron for reasons 1.4 (b and d)

¶1. (C) SUMMARY: On January 7, A/S Wayne and Treasury DAS Ahmed Saeed, accompanied by the Ambassador, NEA/ARPI Deputy Director Steve Walker, EB Financial Economist Roland de Marcellus, and Econoff, met separately with Minister of Finance Bader Al-Meshari Al-Humaidhi, Minister of Commerce & Industry Abdullah Abdul Rahman Al-Taweel, Minister of Foreign Affairs Shaykh Dr. Mohamed Sabah Al-Salem Al-Sabah, Kuwait Fund for Arab Economic Development (KFAED) Director General Abdul Wahab Al-Bader, and Arab Fund for Economic and Social Development (AFESD) Director General Abdulatif Al-Hamad to discuss the Strategic Investment Initiative (SII). A/S Wayne explained the concept behind the initiative, and encouraged the GOK to participate in a regular dialogue to establish a systematic method for determining aid needs and mechanisms for aid implementation, for Iraq, Afghanistan, Lebanon, and the Palestinian Authority (PA). A/S Wayne noted that 2006 will be a critical year in the region, with a new Iraqi government, upcoming PA elections, the "Afghanistan Compact" conference, and a possible donor conference for Lebanon all needing to be addressed, and expressed hope that his current meetings will pave the way for effective meetings by more senior USG officials in late January or early February.

¶2. (C) All interlocutors responded positively to the initiative. FinMin Al-Humaidhi suggested that coordinating with regional development funds would be the best approach, noting that the bulk of GOK assistance is channeled through the KFAED and the AFESD. AFESD Director Al-Hamad seconded the notion in a later meeting, calling the AFESD the region's biggest player in multilateral assistance. KFAED DG Al-Bader also endorsed working with other regional development funds, and offered to arrange a meeting between the USG and the bilateral Arab development funds (Saudi Fund, Kuwait Fund, and Abu Dhabi Fund). Additionally, Al-Bader acknowledged the wisdom of conducting needs assessments instead of depending on recipients for project guidance. Al-Taweel and Al-Sabah both acknowledged the need to systematize need assessments and projects, although Al-Sabah betrayed some skepticism about the efficacy of financial assistance to Lebanon amidst what he sees as a political problem.

¶3. (C) On assistance to Iraq, Commerce Minister Al-Taweel stated that private investment is crucial to post-conflict reconstruction, but that investments outside of the logistics sector have been hampered by the security environment. Foreign Minister Al-Sabah stated his hope that the incoming GOI would be easier to work with than the interim authorities, noting that difficulties with the current GOI are the major reason that \$120 million in promised GOK grant

funds had yet to be spent. He gave the example of Kuwait's desire to build a hospital in Basra: the Iraqis had been unable to agree on a location so construction had not yet started. (NOTE: These project funds are separate from the \$440 million in soft loans.) Nonetheless, Finance Minister Al-Humaidhi addressed the Iraqi debt issue, saying that the GOK is adopting a "wait and see" attitude for now. Al-Hamad noted that AFESD has not financed any projects in Iraq since before the 1990 invasion, and that Iraq is currently in a "frozen position" because of its \$65 million in arrears to the AFESD. KFAED DG Al-Bader said that meetings with the Iraq's Deputy Minister of Planning two weeks ago in Amman and two weeks prior to that in Kuwait to discuss grant and loan money pledged by the GOK have been productive, and that a final decision has been reached on the initial \$30 million grant for school construction. The Foreign Minister suggested adding Yemen to our "strategic dialogue." END SUMMARY

Finance Minister: Work with Regional Development Funds

14. (C) Minister of Finance Al-Humaidhi agreed that there should be a system in place for assessing aid needs and coordinating projects. He stated that Kuwait is a major contributor in Iraq, and could do more if the security situation would permit. Al-Humaidhi agreed on the need for greater U.S.-Kuwait coordination, bemoaning what he described as the past lack of follow-up on aid efforts. He said this was evidenced by the fact that the last Afghanistan donor meeting was more than two years ago, with very little follow-up. He agreed with the SII in principle, and suggested that the most effective way would be for the USG to coordinate with regional aid funds - such as the Kuwait Fund,

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Saudi Fund, Abu Dhabi Fund, etc - through the coordinating committee of these gulf financial institutions, which meets every six months. A/S Wayne agreed that coordinating with the regional funds is a good idea, noting that thus far the USG has not had as much interaction with these funds as it should. (Al-Humaidhi was Director General of the Kuwait Fund before becoming Minister of Finance.)

15. (C) In response to DAS Saeed's question about aid to the PA, Al-Humaidhi stated that GOK assistance was initially channeled through the Kuwait Fund, but later through two funds (the Al-Aqsa Fund and the Intifada Fund) administered by the Islamic Bank. Total GOK assistance, he said, was more than \$200 million. A/S Wayne noted PA claims that it has not received all of the Arab League Summit commitments, but Al-Humaidhi responded that the PA has received everything, and PA claims otherwise are disingenuous.

16. (C) Turning to Iraqi debt, Al-Humaidhi stated that there has been no direct dialogue with the GOI on the issue, and that the GOK "doesn't want to raise it at this time." The debt issue was to be discussed at the last GCC meeting, he said, but was not. Al-Humaidhi said that the GOK "hasn't seen anything concrete" from either the GOI or international donors. In response, noting that the Paris Club commitments to an 80 percent debt reduction were being met by individual donors, A/S Wayne expressed appreciation for the GOK's recent commitment to try to match this effort, which had been critical for approval of IMF arrangements.

Commerce Minister Highlights Private Sector Role in Iraq

17. (C) Minister of Commerce and Industry Al-Taweel was eager to praise the SII concept, saying that he was "glad you're talking about it openly." Al-Taweel stated that Kuwait had given generously in the past, but had not always been recognized internationally for doing so, a situation he

described as "embarrassing" for Kuwait. He noted that the GOK is being "smarter" about aid now, no longer disbursing cash without any follow-up, but is instead financing specific projects through the Kuwait Fund.

¶8. (C) On Iraq, Al-Taweel stated that private sector investment is critical to post-war development, and lamented that the security situation has hampered significant private investment outside of the logistics industry. He indicated the extent of Kuwaiti ambitions for investing in Iraq, stating that Kuwaitis consider the area of Iraq from Baghdad southward as "Kuwaiti territory" in terms of investment.

SII a "Noble Cause," but FM Concerned About Yemen Too

¶9. (C) Foreign Minister Al-Sabah responded favorably to A/S Wayne's and DAS Saeed's description of the SII, agreeing that a structured approach would be beneficial and "the GCC and the U.S. should share views about development." Al-Sabah noted that he first discussed the SII concept with Secretary Rice at the Forum For the Future in Bahrain, and agreed with the need to avoid overlap in our respective aid efforts.

¶10. (C) Al-Sabah stated his concern about Yemen, noting that the "GCC had taken a special interest in Yemen" at the last GCC Summit. He urged the need for international and regional cooperation to prevent instability in Yemen. At the request of the Yemeni Foreign Minister, GCC Foreign Ministers will meet with him to discuss financing for infrastructure projects. In response to Al-Sabah's question, A/S Wayne replied that the U.S. is willing to participate in discussions to assist Yemen.

¶11. (C) Al-Sabah said that Iraq is "of special interest" to the GOK, and noted the \$500 million allocated by Kuwait for Iraq. Referring to a \$125 million grant package that has not yet been disbursed, he stated that the GOK is "still waiting for Iraq to get its house in order" before the funds can be released for projects. As an example, Al-Sabah related problems in building a \$16 million hospital in Basra because the GOI could not agree on a site; Iraqi officials eventually asked that the funds just be transferred, a request the GOK declined. Al-Sabah expressed hope that the new GOI will be easier to work with.

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¶12. (C) Al-Sabah was initially skeptical about financial assistance to Lebanon. Lebanon, he said, is "an interesting case," whose "problems are not economic, but of a political nature." He argued that political stability must come first, because financial aid during a time of crisis may not have much of an impact. He was unsure of the fate of previous loans to Lebanon, and was hesitant provide more money without some certainty that the funds would be appropriately used. DAS Saeed responded that without a financial aid structure, as proposed in the SII, assistance might well be wasted, providing a strong argument in favor of developing a strategic aid framework. A/S Wayne added that the planned donor conference could provide just this type of framework that would result in less risk in disbursing aid. He also stressed the vital role of the IMF.

¶13. (C) On assistance to the PA, Al-Sabah said that "we would like to help" PA President Mahmoud Abbas, but that Abbas's concerns "are more short-term finance, not long-term projects." Wayne agreed that the PA needs to get through short-term budgetary problems in order to be able to tackle the medium- and long-term proposal being developed by the Wolfensohn team.

¶14. (C) A/S Wayne addressed the upcoming conference on Afghanistan in London, stating that the "Compact" will focus on GOA commitments to transparency and good governance in

return for conditional promises of sustained financial assistance from donors. Al-Sabah asked for a copy of the draft Compact, which Post has now received and will forward to him. The Foreign Minister said he plans to attend the London conference.

Kuwait Fund: Our Interests are the Same

¶15. (C) Kuwait Fund for Arab Economic Development (KFAED) DG Al-Bader noted that "our interests are the same" when it comes to investments in the stability of the region, and that it was important to "find common ground, especially on these priority countries." He said the by-laws of KFAED require it to focus on projects, not programs or budgetary assistance to governments.

¶16. (C) Al-Bader said the operations chiefs of the Arab donor organizations meet every six months and that it might be possible to hold a side meeting during one of them to discuss specific aid initiatives in the four countries of concern. "The Arab countries might be open to U.S. participation," he said, "and we could broach it." He explained that, every six months, the Directors of Operations of the KFAED, Saudi Fund, Abu Dhabi Fund, the OPEC fund, the AFESD, and the Islamic Development Bank meet to discuss aid and development projects. He had found this to be "an effective mechanism" for coordinating aid among these donors, but was not a discussion of levels of aid. He pledged to raise the idea of U.S. participation in these meetings with the KFAED Director of Operations to determine whether this would be a good instrument for interaction with the U.S. He also offered to arrange a meeting between the USG and the three bilateral Arab funds.

¶17. (C) Al-Bader said these donors have not in the past done overall needs assessments because they are not major donors individually. Speaking for the KFAED, he noted that while he can express interest in aid for a certain country, decisions on assistance levels remain with the GOK. Al-Bader agreed that more support for private sector development was needed, especially for small- and medium-sized enterprises. He said that there was some support for micro-financing projects for small businesses, but only if there was a reliable government partner with which the KFAED could work.

¶18. (C) On Iraq, Al-Bader said he met recently in Amman and in Kuwait with Iraq's Deputy Minister of Planning Dr. Fa'ik Rassoul to discuss grant and loan money pledged by the GOK. He said the final decision has been reached on the initial \$30 million grant for school construction and the specific schools have been identified. Another \$30 million would be dedicated to medical storage supply facilities and a mobile hospital, but KFAED still needed the GOI to identify specific areas for these facilities. For a second \$60 million in grant aid, Al-Bader said that the Iraqis had asked for \$34 million for a sewage project in Baghdad, and \$26 million for school construction in central and northern Iraq. Of \$440

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million in pledged soft loans, the Iraqis wanted \$200 million for electricity projects and the rest for schools and sewage projects. He said that GOI changes and differing priorities expressed by different officials had made disbursing aid difficult, and he would not discuss any aid initiatives with anyone except the Ministry of Planning. He specifically pointed out Deputy Minister Dr. Fa'ik Rassoul as someone he was comfortable with. (He noted that, during Iraq's invasion of Kuwait, Dr. Rassoul was put in charge of the KFAED and the Deputy for the Central Bank and perhaps kept those institutions from being completely destroyed. He said that he is now on friendly terms with Dr. Rassoul.)

¶19. (C) Al-Bader said the problem with new aid for Afghanistan was still a 1977 loan to build a sugar factory,

on which the GOA had defaulted to the tune of \$19 million. (NOTE: The GOK rescheduling offer is pending GOA approval and the issue is expected to be resolved after settlement of Russian debt claims with the GOA.) "All I need is to sit and discuss this loan," he said, "even if it's paid back over thirty years." He said KFAED has told the GOA of this "many times," but they still have yet to reach an agreement. A/S Wayne noted that a paper was currently being drafted for the upcoming London conference on assistance for Afghanistan, and that this initiative might help KFAED "have this conversation" with the GOA.

¶20. (C) Al-Bader said a KFAED mission had just returned from Lebanon and he had its report on his desk. There were "many delays" in current projects, and KFAED needs to "sit down with them to figure out" the status of the various projects. In general, KFAED has had "good relations" with Lebanon over the years, with "a number of good projects." A number of road projects were being held up "because of the political situation," and because the GOL had yet to make the necessary land acquisitions for the construction, he stated.

¶21. (C) Al-Bader said that support for the PA's budget goes through the GOK, not through the KFAED, and the KFAED cannot make loans to the PA "because they are not a state." He expressed interest in seeing "small grants" made to the PA through the KFAED for specific studies and programs.

"Biggest Player in the Region"

¶22. (C) Arab Fund for Economic and Social Development (AFESD) Director Al-Hamad thanked A/S Wayne for his visit to the region, noting that the AFESD is in a unique position. "We are not part of the GOK," he noted, adding "sometimes they forget we exist." He explained that the AFESD answers to the Finance Ministers of each member country and that the AFESD "is the biggest player in the region" in terms of multilateral development assistance, committing over \$1.2 billion in 2005 alone. Al-Hamad explained that the AFESD "does not deal with Afghanistan" since it is not part of the League of Arab States.

¶23. (C) Al-Hamad said that, in order for development institutions to work together properly, they need to understand each others' limitations. Wayne noted that the Fund is project-driven, while other donors are "program" driven. Al-Hamad noted that the U.S. approach is global, while the AFESD's approach is regional, and that cooperation over the years has been "stop and go." He had worked closely with USAID when he was with the Kuwait Fund in the 1960s and 1970s, but the region has become more politicized. He welcomed any future cooperation and communication and recommended that development assistance efforts be moved "from the political level to the technical," in order to make them work.

¶24. (C) Al-Hamad stated that he hoped to renew dialogue with Iraq "soon," and expected an initiative to that effect after the next AFESD annual meeting in April 2006. He said that AFESD had financed a number of projects in Iraq before the August 1990 invasion, but that Iraq defaulted on those loans in February 1990. The loans were stopped, per AFESD regulations, and Baghdad asked someone from AFESD to come to Iraq to work out a solution. "Then they sent one million people here. They had their own solution," Al-Hamad said, referring to the invasion of Kuwait. Since then, Iraq has been in a "frozen position" rather than being suspended from the organization, and Iraq was \$65 million in arrears to the AFESD, with "no interest being charged" on the interest, he

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stated.

¶25. (C) On Lebanon, Al-Hamad said that AFESD was the "second

largest donor in Paris," and praised Lebanon for never defaulting on any of its project loans, not "even during the most difficult times of their civil war." While he expected to receive documentation for new projects soon, the \$500 million pledged for these has not been disbursed because project sites need to be identified and "we need to wait for the political situation to calm down." Al-Hamad said that an earlier commitment of \$700 million was already allocated to projects with \$100 million of it committed so far. Projects under consideration for future loans include: repairs of the extensive water and sewage network; a highway in Northern Lebanon; investing in public administration development, including computerization efforts; and construction of a new campus for Tripoli University.

¶26. (C) On assistance to the PA, Al-Hamad said AFESD had "refused to deal with Arafat" from the beginning, opting to work with NGOs instead. He said AFESD's work in the Palestinian territories was focused on the "humanitarian level" and that the organization repeatedly had to refuse Arafat's desire to have the money under his "umbrella." He added that AFESD has insisted on "absolute and total control" of its funds and has demanded transparency at the local level. Beginning a few years ago, he explained, the AFESD board decided to allocate 10 percent of its annual income to the Palestinian territories for drinking water and other development-related endeavors. He was especially proud that AFESD "managed to maintain the universities" in Palestine and had created a fund to lend directly to Palestinian students for their university fees, "to keep students out of the streets and in the universities."

¶27. (U) A/S Wayne and DAS Saeed have cleared this cable.

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